2008 ANNUAL REPORT

Pine Cliff Energy Ltd.

PNE-V

Pine Cliff Energy Ltd. (TSX Venture symbol – PNE) is a junior energy company that explores for, develops and produces oil and natural gas in the Western Canadian Sedimentary Basin and internationally.

The Company's business strategy is to strive to maximize shareholder value by applying long-term growth objectives. The Company's primary objective is to combine its oil and gas production technical strengths with planned business strategies to generate above average results and returns for its shareholders.

The Annual General Meeting of Shareholders will be held on May 21, 2009 in the Marquis Room at the Fairmont Palliser Hotel, 133 Ninth Avenue SW, Calgary, Alberta at 9:00 AM Mountain Time.

FINANCIAL HIGHLIGHTS

ANNUAL FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2008	2007	2006
FINANCIAL			
Revenue - Oil and Gas	$ 707,012	$ 582,950	$ 661,100
Cash Flow from Operations	(725,525)	(784,938)	(168,809)
Per Share Basic and Diluted	(0.02)	(0.02)	(0.01)
Net Loss	(7,541,868)	(1,381,454)	(1,014,605)
Per Share Basic and Diluted	(0.17)	(0.04)	(0.03)
Capital Expenditures and Acquisitions	5,377,190	2,797,763	271,926
Total Assets	5,570,015	12,445,994	4,494,010
Working Capital	2,316,982	8,378,110	2,963,513
Shareholders' Equity	5,044,701	12,205,066	4,239,638
OPERATIONS			
Oil and Liquids *(barrels per day)*	1	4	5
Natural Gas *(MCF per day)*	228	198	195

QUARTERLY FINANCIAL AND OPERATIONAL HIGHLIGHTS 2008

	4th	3rd	2nd	1st
FINANCIAL				
Revenue – Oil and Gas	$ 295,944	$ 129,537	$ 138,415	$ 143,116
Cash Flow from Operations	(68,211)	(332,184)	(122,517)	(202,613)
Per Share Basic and Diluted	(0.00)	(0.01)	(0.00)	(0.01)
Net Loss	(6,423,691)	(505,953)	(295,111)	(317,113)
Per Share Basic and Diluted	(0.14)	(0.01)	(0.01)	(0.01)
Capital Expenditures and Acquisitions	1,067,843	1,511,745	2,516,214	281,388
Total Assets	5,570,015	11,621,915	12,043,617	12,221,650
Working Capital	2,316,982	3,440,165	5,278,074	7,937,179
Shareholders' Equity	5,044,701	11,400,311	12,043,617	12,003,398
OPERATIONS				
Oil and Liquids *(barrels per day)*	2	1	–	4
Natural Gas *(MCF per day)*	453	146	142	168

Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") is pleased to report its operations and financial results for 2008. In the wake of major reductions in commodity prices and the global economic recession, Pine Cliff faced one of its most challenging years in both its operations and financial performance.

Disappointing drill results and potential political and economic changes in Argentina coupled with the changing landscape in Canada's energy sector has compelled management and the Board of Directors to reflect upon the Company's strategy going forward. After electing to focus much of its activities in South America in both 2007 and 2008, it has been determined that a new shift in strategy could be necessary to take advantage of domestic opportunities which may once again be more economic than those in foreign jurisdictions. These opportunities may include acquisitions of both quality producing and non-producing properties.

OPERATIONS – CANADA

During the fourth quarter of 2008, Pine Cliff participated in drilling one well (15 percent working interest) in the Sundance area of Alberta. This has been completed as a natural gas well and it averaged approximately 320 MCF per day net to the Company during the fourth quarter. Anticipated production for 2009 from this well is estimated to be between 150 to 200 MCF per day net to Pine Cliff.

OPERATIONS - ARGENTINA

Pine Cliff conducted a three-well drill program on the Canadon Ramirez property, located in the San Jorge Basin of Argentina in which the Company holds a 49 percent participating interest. Pine Cliff completed testing and evaluating of the three wells and determined that based on production tests, all zones tested were uneconomic. This resulted in no reserves being attributed to them. As a result of the unsuccessful drilling program, less prospective lands were relinquished reducing the size of the concession to 17,182 gross acres (8,334 net). Various other prospects in this property are being assessed to determine what value the remaining acreage may have.

Only one other property in Argentina is presently deemed to be highly prospective and the Company is giving consideration to participating in drilling one gross exploration well (0.25 net) in the Laguna de Piedra Concession. Drilling is expected to take place in late 2009 or early 2010 depending on regulatory requirements and equipment availability. The Company's share of the costs to drill the well would be approximately $500,000.

FINANCE

As of December 31, 2008, Pine Cliff had positive working capital of $2,316,982 (December 31, 2007 - $8,378,110). These funds will be used to cover the Company's budgeted 2009 capital expenditures of $750,000 in relation to the drilling of its Laguna de Piedra Concession as well as miscellaneous capital costs in respect of its Canadian oil and gas operations. The Company is presently reviewing Canadian operations and the budget for 2009 will likely be increased to account for further investments in Canada. The Company will also focus on reducing general and administrative expenses related to its Argentina operations to advance its goal to operating with a positive cash flow for the last half of 2009.

GENERAL

The Board and Management recognize that there is a need to assess the overall direction for the Company and are presently assessing the various options and opportunities that exist to assist in this change of direction.

Submitted on behalf of the Board of Directors,

George F. Fink
President, Chief Executive Officer and Director

PROPERTY DISCUSSION

CANADA

Sundance, West Central Alberta

Pine Cliff's only producing property is located in the Sundance area of west central Alberta. The Company has a 13.7 percent average working interest in 5,280 acres (723 net) of Crown land in the area. There are currently six (0.68 net) wells producing. The wells are producing liquid rich natural gas from multiple Cretaceous sands ranging from the Cadomin to the Belly River. Current production is approximately 3,600 MCF per day gross, 480 MCF per day net to Pine Cliff. NGLs are produced in association with the natural gas.

There continues to be significant industry activity in the area and the operator for this area continues to monitor and evaluate the undeveloped lands for additional development. The activity in the area has caused pipeline pressures to increase as new wells are brought on stream, adversely affecting Pine Cliff's wells periodically. Recent third party plant expansions have currently alleviated this problem.

ARGENTINA

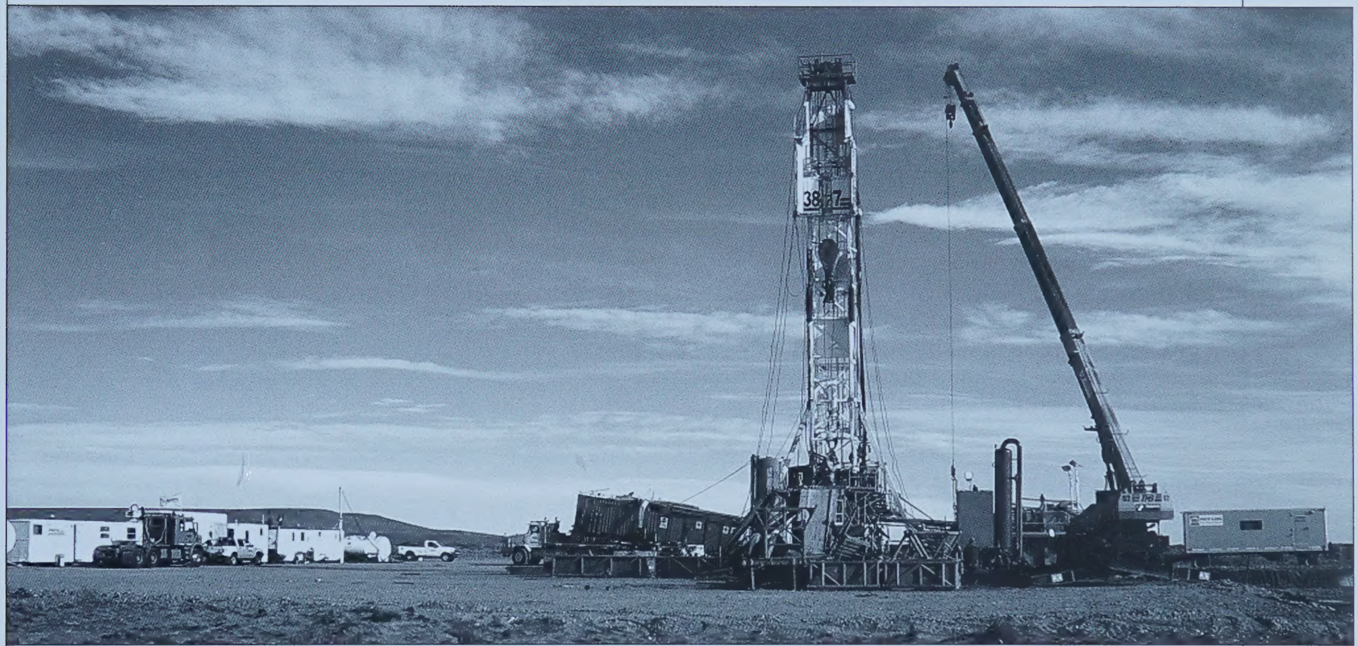
In 2006, Pine Cliff had decided to pursue oil and gas opportunities in South America. In 2007, the Company was successful in negotiating three separate farm-in agreements to acquire an interest in over 50 gross (26 net) townships of land in Argentina.

Cañadón Ramirez Farm-In, Argentina

The Company through its 93 percent owned subsidiary, CanAmericas Energy Ltd. (CanAmericas) earned a 49 percent interest in 47,940 gross acres (23,490 net acres) of an exploitation concession situated in the western part of the San Jorge Basin by funding 100 percent of exploration costs totaling U.S. $5,500,000 including V.A.T. The commitment, now complete, included conducting a 190 km^2 3D seismic program and spending the remainder of the funds on three exploration wells.

The drilling, completion and testing of the three exploration wells was completed. Although cutting, openhole log and side wall core evaluations were encouraging and indicated the presence of hydrocarbons, all zones tested were determined to be uneconomic. As a result of the unsuccessful drilling program, less prospective lands were relinquished reducing the size of the concession to 17,182 gross acres (8,334 net acres).

The acreage is bordered by several producing oil fields. Over 40 separate prospective reservoirs belonging to the Upper-Mid Cretaceous-aged Bajo Barreal and Castillo Formations are known to exist within the farm-in area at depths between 600 – 1,500 meters. Additionally, Neocomian aged source rocks within the farm-in area have been proven to be oil generating and over pressured. The 3D seismic program has identified several other opportunities and the Company is exploring ways to extract additional value from this property.



Laguna de Piedra Farm-In, Argentina

The Company through its 93 percent owned subsidiary, CanAmericas, has earned a 25 percent interest in 252,944 gross acres (63,236 net acres) of the Laguna de Piedra exploration concession operated by Golden Oil by funding 40 percent of a 100 km^2 3D seismic program over the northern portion of the property. There are no further commitments required to maintain this concession. The concession is situated on the southeast flank of the prolific Neuquen Basin. The concession is adjacent to the Estacion Fernandex Oro oil field situated to the northwest, and adjacent to Flor de Roca, General Roca, and Don Jose oil fields to the north. These fields collectively produce from the Lower Cretaceous – Jurassic aged Quintuco, Lotena, Los Molles, and Punta Rosada Formations.

Additionally, it is believed that the PreCuyo interval may also have significant potential, as it lies on trend with Chevron's La Yassera and Loma Negra fields, and is in a similar deposition setting as Petrolifera's recent Puesto Morales Field discoveries. Expected target depths range from 500 to 2,200 meters. To date there has been no wells drilled on the block. There are plans to drill one gross (0.25 net) exploration well on the property later this year or in early 2010 depending on regulatory requirements and equipment availability.

San Jorge Basin Farm-in, Argentina

The Company through its 93 percent owned subsidiary CanAmericas had negotiated exclusive rights to farm-in on a large exploration concession in the San Jorge Basin in Argentina with an Argentine company. CanAmericas' ability to farm-in on this property was subject to the final granting of the concession of this property by the provincial government to the Farmor. The Farmor was unable to secure the concession from the province therefore the farm-in was terminated.

RESERVES

The Company engaged the services of Sproule Associates Limited to prepare a reserve evaluation with an effective date of December 31, 2008. The reserves are located in the Province of Alberta. The majority of the Company's production is comprised of natural gas. The Company's main gas producing area is located in the Sundance area of west central Alberta. The gross reserve figure in the following charts represents the Company's ownership interest before royalties and the net figure is after deductions for royalties.

SUMMARY OF OIL AND GAS RESERVES AS OF DECEMBER 31, 2008

(Forecast prices and costs)

	Natural Gas (non-associated & associated)		Natural Gas Liquids	
Reserve Category:	Gross *(MMCF)*	Net *(MMCF)*	Gross *(MBbl)*	Net *(MBbl)*
PROVED				
Developed Producing	438	356	6.7	4.0
Developed Non-Producing	–	–	–	–
Undeveloped	–	–	–	–
TOTAL PROVED	438	356	6.7	4.0
Probable	145	119	2.0	1.1
TOTAL PROVED PLUS PROBABLE	584	475	8.7	5.2

RECONCILIATION OF COMPANY GROSS RESERVES BY PRINCIPAL PRODUCT TYPE

(Forecast prices and costs)

	Natural Gas			Natural Gas Liquids		
	Gross Proved *(MMCF)*	Gross Probable *(MMCF)*	Gross Proved Plus Probable *(MMCF)*	Gross Proved *(MBbl)*	Gross Probable *(MBbl)*	Gross Proved Plus Probable *(MBbl)*
December 31, 2007	251	112	363	5	2	7
Technical Revisions	50	(21)	29	(3)	(1)	(4)
Discoveries	215	54	269	6	1	7
Economic Factors	4	1	5	–	–	–
Production	(82)	–	(82)	(1)	–	(1)
December 31, 2008	438	146	584	7	2	9

SUMMARY OF NET PRESENT VALUES AFTER INCOME TAXES OF FUTURE NET REVENUE AS OF DECEMBER 31, 2008

(Forecast prices and costs)

($ thousands)	0%	5%	10%	15%	20%
PROVED					
Developed Producing	2,470	2,146	1,901	1,709	1,556
TOTAL PROVED	2,470	2,146	1,901	1,709	1,556
Probable	969	688	509	389	307
TOTAL PROVED PLUS PROBABLE	3,439	2,834	2,409	2,098	1,863

The Forecast Prices used in the appendix are:

Year	Natural Gas AECO Gas (Cdn $ / MMBtu)	Butanes F.O.B. Field Gate (Cdn $ / Bbl)	Pentanes Plus F.O.B. Field Gate (Cdn $ / Bbl)	Inflation Rate (% / Year)	Exchange Rate (% / Year)
Forecast					
2009	6.82	51.15	66.93	2.0	0.800
2010	7.56	54.25	74.54	2.0	0.850
2011	7.84	59.59	81.88	2.0	0.850
2012	8.38	64.53	88.66	2.0	0.900
2013	9.20	70.79	97.27	2.0	0.950

* Natural gas and liquid prices escalate at various rates thereafter.

The following cautionary statements are specifically required by NI 51-101.

- It should not be assumed that the estimates of future net revenue presented in the above tables represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material.
- Disclosure provided herein in respect of barrels of oil equivalent (BOE) may be misleading, particularly if used in isolation. In accordance with NI 51-101, a BOE conversion ratio of 6 MCF: 1 Bbl has been used in all cases in this disclosure. This BOE conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
- Estimates of reserves and future net revenues for individual properties may not reflect the same confidence level estimates of reserves and future net revenues for all properties due to the effects of aggregation.

LAND HOLDINGS

Pine Cliff's holdings of petroleum and natural gas leases and rights are as follows:

	2008		2007	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Alberta, Canada	**7,360**	**2,802**	7,360	2,802
San Jorge Basin, Argentina	**17,182**	**8,334**	912,810	542,410
Neuquen Basin, Argentina	**252,048**	**63,012**	252,048	63,012
Total	**276,590**	**74,148**	1,172,218	608,224

PETROLEUM AND NATURAL GAS CAPITAL EXPENDITURES

The following table summarizes petroleum and natural gas capital expenditures incurred by the Company on acquisitions, land, seismic, exploration and development drilling and production facilities for the years ended December 31:

	2008	2007
Exploration costs	$ 4,897,066	$ 2,739,975
Development costs	607,941	50,234
Net petroleum and natural gas capital expenditures	$ 5,505,007	$ 2,790,209

DRILLING HISTORY

The following tables summarize Pine Cliff's gross and net drilling activity and success:

	2008					
	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net
Natural Gas	1	0.15	3	2.5	4	2.65
Success rate	100%	100%	0%	0%	25%	6%

Drilling operations in 2008 were in Argentina and Canada.

	2007					
	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net
Natural Gas	–	–	–	–	–	–
Success rate	–	–	–	–	–	–

All drilling operations in 2007 were in Canada.

	2006					
	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net
Natural Gas	1	0.10	–	–	1	0.10
Success rate	100%	100%	–	–	100%	100%

All drilling operations in 2006 were in Canada.

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Pine Cliff
Energy Ltd.

Pine Cliff Energy Ltd.

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2008 FINANCIAL REPORT

Pine Cliff Energy Ltd.

PNE-V

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The Company's business strategy is to strive to maximize shareholder value by applying long term growth objectives. The Company's primary objective is to combine its oil and gas production technical strengths with planned business strategies to generate above average results and returns for its shareholders.

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS

This annual management's discussion and analysis (MD&A) is a review of the operations, current financial position and outlook for the Company and covers the fiscal year ended December 31, 2008 and the period up to March 18, 2009. It should be read in conjunction with the audited financial statement for the period ended December 31, 2008, including the Notes related thereto.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected cash provided by continuing operations; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and outlook; expansion and growth of our business and operations; and maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: the risks of foreign operations; foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived therefrom. Except as required by law, Pine Cliff disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

FINANCIAL AND OPERATIONAL

ANNUAL FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2008	2007	2006
FINANCIAL			
Revenue - Oil and Gas	$ 707,012	$ 582,950	$ 661,100
Cash Flow from Operations	(725,525)	(784,938)	(168,809)
Per Share Basic and Diluted	(0.02)	(0.02)	(0.01)
Net Loss	(7,541,868)	(1,381,454)	(1,014,605)
Per Share Basic and Diluted	(0.17)	(0.04)	(0.03)
Capital Expenditures and Acquisitions	5,377,190	2,797,763	271,926
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Natural Gas *(MCF per day)*	228	198	195

QUARTERLY FINANCIAL AND OPERATIONAL HIGHLIGHTS

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	4th	3rd	2nd	1st
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Revenue - Oil and Gas	$ 295,944	$ 129,537	$ 138,415	$ 143,116
Cash Flow from Operations	68,211	(332,184)	(122,517)	(202,613)
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Capital Expenditures and Acquisitions	1,067,843	1,511,745	2,516,214	281,388
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OPERATIONS				
Oil and Liquids *(barrels per day)*	2	1	–	4
Natural Gas *(MCF per day)*	453	146	142	168

	2007			
	4th	3rd	2nd	1st
FINANCIAL				
Revenue - Oil and Gas	$ 112,685	$ 95,160	$ 176,590	$ 198,515
Cash Flow from Operations	(67,733)	(172,281)	(429,064)	(115,860)
Per Share Basic and Diluted	(0.00)	(0.01)	(0.01)	(0.00)
Net Loss	(381,561)	(383,510)	(346,274)	(270,109)
Per Share Basic and Diluted	(0.01)	(0.01)	(0.01)	(0.01)
Capital Expenditures and Acquisitions	193,350	174,289	233,648	2,196,476
Total Assets	12,445,994	4,173,333	3,946,888	4,211,984
Working Capital	8,378,110	(314,684)	182,319	602,650
Shareholders' Equity	12,205,066	3,371,089	3,749,025	4,008,304
OPERATIONS				
Oil and Liquids *(barrels per day)*	2	1	5	7
Natural Gas *(MCF per day)*	182	163	226	226

PRODUCTION

	Three months ended			Twelve months ended	
	December 31, 2008	September 30, 2008	December 31, 2007	**December 31, 2008**	December 31, 2007
Crude oil and NGLs *(barrels per day)*	**2**	1	2	**1**	4
Natural gas *(MCF per day)*	**453**	146	182	**228**	198
Total BOE per day [(1)]	**77**	25	32	**39**	37

(1) Barrels of oil equivalent (BOE) are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

During the fourth quarter the Company completed and placed on production one gross (0.15 net) natural gas well. The well averaged approximately 320 MCF per day net to the Company during the fourth quarter. Anticipated production for 2009 from this well is estimated at between 150 and 200 MCF per day net to the Company. The Company has an expected decline rate of approximately 20 percent on its other production.

REVENUE

	Three months ended			Twelve months ended	
($)	**December 31, 2008**	September 30, 2008	December 31, 2007	**December 31, 2008**	December 31, 2007
Revenue:					
Oil and gas sales	**295,944**	129,537	112,685	**707,012**	582,950
Average Realized Prices:					
Crude oil and NGLs *(per barrel)*	**53.46**	119.90	68.33	**90.68**	62.75
Natural gas *(per MCF)*	**6.92**	8.74	6.16	**8.05**	6.91

Revenue from petroleum and natural gas sales for 2008 increased by $124,062 from 2007 due to increased natural gas prices and production volumes due to completion of the above mentioned well. The Company did not have hedging agreements in either 2008 or 2007 and presently does not have any future hedging agreements.

ROYALTIES

	Three months ended			Twelve months ended	
($)	**December 31, 2008**	September 30, 2008	December 31, 2007	**December 31, 2008**	December 31, 2007
Crown royalties	**74,834**	31,888	27,090	**162,716**	113,257
Gross overriding royalties	**10,204**	5,568	4,570	**28,559**	23,755
Total royalty expense	**85,038**	37,456	31,660	**191,275**	137,012

Crown royalties are significantly higher in 2008 due to the successful completion of the natural gas well during the fourth quarter of 2008. Gross overriding royalties are also higher for the same reason.

New Alberta Crown Royalty Framework (NRF)

Crown royalty rates in the fourth quarter averaged approximately 25 percent; slightly higher than preceding quarters due to the commencement of production from the new well. The NRF rates vary by prices as well as productivity levels. With the current low commodity prices, the new royalty rates should result in a reduction in the amount the Company will pay to the Province of Alberta.

INTEREST INCOME

	Three months ended			Twelve months ended	
($)	**December 31, 2008**	September 30, 2008	December 31, 2007	**December 31, 2008**	December 31, 2007
Interest income	**13,580**	21,025	54,443	**128,935**	76,273

The Company maintains both Canadian and U.S. investment accounts that pay interest at prime less various percentages as long as the Company maintains certain minimum account balances. The Company increased its cash balance with regard to proceeds received from the rights offering done in the fourth quarter of 2007. The Company was therefore earning interest at higher rates and on an increased cash balance throughout most of 2008. Interest income for Q4 2008 decreased by $7,445 from Q3 2008 due to the lower cash balance on hand as $1.1 million was spent on capital projects in Canada and Argentina in the fourth quarter of 2008.

Interest income for 2009 is anticipated to further decline as the Company continues with its capital program.

PRODUCTION COSTS

	Three months ended			Twelve months ended	
($)	**December 31, 2008**	September 30, 2008	December 31, 2007	**December 31, 2008**	December 31, 2007
Production costs	**49,159**	27,187	35,090	**115,868**	134,453
$ per BOE (1)	**7.27**	12.17	12.53	**8.11**	10.48

(1) Barrels of oil equivalent (BOE) are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

Capacity constraints at the gas plant where the majority of the Company's natural gas production is processed have been resolved resulting in a lower cost per unit for processing. This, combined with higher production per well (due to the new well commencing production in Q4), has resulted in significant reductions in both total costs and production costs per BOE.

Production costs for 2009 are anticipated to be in the $6 to $7 per BOE range.

GENERAL AND ADMINISTRATIVE

	Three months ended			Twelve months ended	
($)	**December 31, 2008**	September 30, 2008	December 31, 2007	**December 31, 2008**	December 31, 2007
G&A expense	**339,344**	358,105	335,593	**1,338,621**	1,294,929

General and administrative expenditures were similar between 2008 and 2007. The majority of the G&A expenses pertain to the Company's operations in Argentina. With the unsuccessful completion of the three well program on the Canadon Ramirez Concession, the Company's Board of Directors and management are reviewing the Company's involvement in Argentina. Any reduction in activity in Argentina should result in a future decline in G&A expenses.

Pine Cliff does not have any employees at the present time but has engaged Bonterra Energy Corp. (Bonterra Corp) a related party (see Related Party section), to provide management services and engage the services of consultants on a contract or temporary basis. Pine Cliff's subsidiary CanAmericas Energy Ltd. (CanAmericas) has also engaged the consulting services of two individual professionals as senior management and officers of CanAmericas.

FOREIGN EXCHANGE LOSS (GAIN)

	Three months ended			Twelve months ended	
($)	**December 31, 2008**	September 30, 2008	December 31, 2007	**December 31, 2008**	December 31, 2007
Foreign exchange loss (gain)	**(71,892)**	26,816	(6,302)	**(149,010)**	27,827

The Company maintains foreign denominated bank accounts to facilitate its foreign operations. The gain on foreign exchange in 2008 and the loss in 2007 relates to the depreciation (2007 appreciation) of the Canadian dollar with the U.S. dollar.

Late in Q3 and during Q4, the Company advanced sizable amounts of U.S. funds to the Company's Argentina operations to cover capital costs. Due to the rapid appreciation of the U.S. dollar against the Canadian dollar, Pine Cliff experienced a significant gain in Q4. With the reduced cash balances and significantly less capital commitments (see Liquidity Section), it is anticipated that any 2009 gain or loss on foreign exchange will be modest.

STOCK-BASED COMPENSATION

Stock-based compensation for 2008 was $381,503 (2007 - $178,826). The Company has a stock-based compensation plan. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees of the management company (see section "Related Party Transactions"), directors and service providers in respect of the Company. The Company issued 1,108,000 stock options in Pine Cliff during the fourth quarter of 2007 and only 65,000 in 2008, causing an increase in stock-based compensation for 2008 over 2007. The Company estimated the 2008 stock options fair value at $33,761 ($0.52 per option) using the Black-Scholes option pricing model, assuming a weighted average risk free interest rate of 2.89 percent, weighted average expected volatility of 72.0 percent, weighted average expected life of 2.5 years and no annual dividend rate. As of December 31, 2008 approximately $146,000 of unamortized stock-based compensation exists with the majority expected to be amortized in 2009.

DEPLETION, DEPRECIATION AND AMORTIZATION AND DRY HOLE EXPLORATION COSTS

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of acquiring unproved properties are capitalized. When petroleum and natural gas properties are found to contain proved reserves as determined by Company engineers, the related net book value is depleted on the unit of production basis, calculated by field. The costs of dry holes and abandoned properties are charged to operations. Geological costs, lease rentals and carrying costs are charged to income as incurred. Costs of drilling exploratory and development wells that result in additions to proved reserves are capitalized and depleted on the unit of production basis. Tangible equipment is depreciated on a straight-line basis over ten years.

The Company through its subsidiary CanAmericas spent $7,503,452 on exploration activities in Argentina to earn interests in specific properties. During 2008, the Company completed a three well exploration program on the Canadon Ramirez Concessions in Argentina. The program resulted in no significant reserves being discovered and as a result $6,171,140 of costs related to this Concession were expensed as dry hole costs, which included $34,130 for estimated future abandonment costs. The remaining $1,366,442 relates to the Laguna de Piedra Concession that if the development of this property is successful and proved reserves are obtained, this amount will be depleted on the unit of production basis, otherwise this amount will be charged to operations.

Provisions are made for asset retirement obligations through the recognition of the fair value of obligations associated with the retirement of tangible long-life assets being recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is adjusted over time for changes in the value of the liability through accretion charges which are included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion and depreciation of the underlying asset.

At December 31, 2008, the estimated total undiscounted amount required to settle the asset retirement obligations was $123,602 (2007 - $69,182). These obligations will be settled based on the useful lives of the underlying assets, which extend up to 13 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of five percent. The discount rate is reviewed annually and adjusted if considered necessary. A change in the rate would not have a significant impact on the amount recorded for asset retirement obligations.

During 2008, the Company provided $330,465 (2007 - $296,724) for depletion, depreciation and accretion of its property and equipment. The increase is related to increased production volumes in 2008 due to the production from the Company's new well in Q4.

The calculation of the above requires an estimation of the amount of the Company's petroleum reserves by field. This figure is calculated annually by an independent engineering firm and used to calculate depletion. This calculation is to a large extent subjective. Reserve adjustments are affected by economic assumptions as well as estimates of petroleum products in place and methods of recovering those reserves. To the extent reserves are increased or decreased, depletion costs will vary.

INCOME TAXES

The Company follows the liability method of accounting for income taxes under which the income tax provision is based on the temporary differences in the accounts calculated using income tax rates expected to apply in the year in which the temporary differences will reverse. The Company has sufficient tax pools so it is not liable for current income tax in 2008. However, the Government of Argentina charges a capital tax equal to one percent of capital employed in the country and as a result the Company has reported a current tax expense of $23,132.

The Company has the following tax pools which can be used to reduce future taxable income:

	Rate of Utilization %	Amount
Undepreciated capital costs	25	$ 406,824
Foreign exploration expenditures	10	5,496,995
Canadian oil and gas property expenditures	10	589,981
Canadian development expenditures	30	586,943
Canadian exploration expenditures	100	392,110
Share issue costs	20	83,715
Non-capital loss carryforward (1)	100	3,593,315
		$ 11,149,883

(1) $707,698 expires 2026, $929,726 expires 2027, $1,955,891 expires 2028

NON-CONTROLLING INTEREST

A private foreign company (Foreign Corp.) owns seven percent of CanAmericas Energy Ltd. (CanAmericas), a 93 percent owned subsidiary of Pine Cliff. The loss applicable to non-controlling interest for 2008 was $25,179 (2007 - $49,791). The expense of $25,179 has completely eliminated the investment amount by Foreign Corp.

LOSS

	Three months ended			Twelve months ended	
($)	**December 31, 2008**	September 30, 2008	December 31, 2007	**December 31, 2008**	December 31, 2007
Loss	**6,423,691**	505,953	381,561	**7,541,868**	1,381,454
Loss per share	**(0.14)**	(0.01)	(0.01)	**(0.17)**	(0.04)

The increase in the 2008 loss over 2007 was predominantly due to the provision for dry hole costs of $6,171,140 relating to the unsuccessful exploration of the Canadon Ramirez Concession. The Company is currently planning to proceed with the drilling of the Laguna de Piedra Concession in 2009; however, Pine Cliff's management and Board of Directors are currently examining the Company's involvement in Argentina and may reduce its activities in that country which may result in reducing overall Company costs.

CASH FLOW FROM OPERATIONS

($)	Three months ended December 31, 2008	 September 30, 2008	 December 31, 2007	Twelve months ended December 31, 2008	 December 31, 2007
Cash flow from operations	**(68,211)**	(332,184)	(67,733)	**(725,525)**	(784,938)
Cash flow from operations per share	**(0.00)**	(0.01)	(0.00)	**(0.02)**	(0.02)

Cash flow deficiency decreased in 2008 over 2007 as the Company realized a foreign exchange gain and had an increase in revenue due to the new well that came on production in Q4 2008, which was partially offset by a reduction in non-cash working capital adjustments. The decrease in cash flow deficiency from Q4 2008 from Q3 2008 was primarily due to the realized foreign exchange gain and increased oil and gas sales from the new well.

RELATED PARTY TRANSACTIONS

Pine Cliff has a management agreement with Bonterra Corp, a wholly owned subsidiary of Bonterra Oil & Gas Ltd. (formerly Bonterra Energy Income Trust) and a company with common directors and management with Pine Cliff, to have Bonterra Corp provide executive services (President and CEO, CFO and COO), accounting services, oil and gas administration and office administration. The management fee consists of a monthly fee of $18,000 (2007 - $18,000), three percent of net earnings before income taxes, $250 per month per operated producing well and $150 per month per water injector well plus out of pocket costs. Total fees for 2008 were $216,000 (2007 - $216,000) plus minimal out of pocket costs. Amounts were owing to Bonterra Corp of $592 as at December 31, 2008 (2007 - $3,976).

COMMITMENTS

As discussed above, the Company has a management agreement with Bonterra Corp which can be cancelled by giving 90 days notice.

The Company has entered into commitments in relation to its farm-ins on two parcels of land in Argentina. Please see previous Property Discussions section for further details. A summary of the commitments is provided below:

Canadon Ramirez Concession

Pine Cliff through its subsidiaries has paid 100 percent of costs totaling U.S. $5,500,000, including a 21 percent Value Added Tax (V.A.T.), for work to be conducted on the concession to earn a 49 percent participating interest, which included a three well drilling program. As of December 31, 2008 all costs relating to this concession, including V.A.T. of $1,052,944 (U.S. $967,961), have been expensed to dry hole costs as discussed above. There are no further material farm-in commitments on this property, but the Company may decide to do additional exploratory programs in the future.

Laguna de Piedra Concession

Pine Cliff through its subsidiaries has paid 40 percent of costs totaling U.S. $1,120,000 including V.A.T. to earn a 25 percent participating interest in the entire permit. The Company has planned to participate in a one well project which is expected to be drilled in 2009. The Company's share of the costs to drill the well will be approximately $500,000.

The V.A.T amount is recoverable against V.A.T liabilities generated on the sale of petroleum production in Argentina. The V.A.T amount has been capitalized to exploration costs, as its recoverability can not be determined until a successful producing property is established.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2008, Pine Cliff had positive working capital of $2,316,982 (December 31, 2007 - $8,378,110). These funds will be used to cover the Company's budgeted 2009 capital expenditures of $750,000 in relation to the drilling of its Laguna de Piedra Concession as well as miscellaneous capital costs in respect of its Canadian oil and gas operations. The Company is currently focusing on reducing general and administrative expenses related to its Argentina operations with a goal to bring operating cash flow into balance.

The Company has a line of credit through its subsidiary CanAmericas to the lower of its available amount of cash or U.S. $3,690,000, which can be drawn by means of letters of guarantee and letters of credit. The line of credit may be cancelled without notice. No letters of guarantee or credit are currently outstanding.

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

	2008		2007	
Issued	**Number**	**Amount**	Number	Amount
Common Shares				
Balance, beginning of year	**45,275,695**	**$ 14,588,722**	36,523,041	$ 5,377,343
Issued pursuant to rights offering	–	–	8,312,654	9,143,919
Share issue costs		–		(71,309)
Issued on exercise of stock options	–	–	440,000	74,750
Transfer of contributed surplus to share capital		–		43,322
Future tax benefit of share issue costs		–		20,697
Balance, end of year	**45,275,695**	**$ 14,588,722**	45,275,695	$ 14,588,722

On October 25, 2007, the Company completed a rights offering whereby the Company shareholders were granted the right to purchase one common share for every four common shares held with an exercise price of $1.10 per share. The Company issued 8,312,654 common shares for proceeds of $9,072,610 net of $71,309 of share issue costs.

A summary of the status of the Company's stock option plan as of December 31, 2008 and December 31, 2007, and changes during the years ended on those dates are presented below:

	December 31, 2008		December 31, 2007	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	**3,053,000**	**$ 0.62**	2,420,000	$ 0.29
Options granted	**65,000**	**1.15**	1,108,000	1.16
Options exercised	–	–	(440,000)	0.17
Options cancelled	–	–	(35,000)	0.40
Outstanding at end of year	**3,118,000**	**$ 0.63**	3,053,000	$ 0.62
Options exercisable at end of year	**2,003,500**	**$ 0.33**	1,162,500	$ 0.18

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 12/31/08	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 12/31/08	Weighted-Average Exercise Price
$ 0.15	1,090,000	1.1 years	$ 0.15	1,090,000	$ 0.15
0.50 – 0.60	825,000	1.1 years	0.51	800,000	0.51
0.70 – 0.75	80,000	1.1 years	0.72	80,000	0.72
1.10 – 1.20	1,083,000	1.5 years	1.17	13,500	1.17
1.40 – 1.50	40,000	2.1 years	1.49	20,000	1.49
$ 0.15 – 1.50	3,118,000	1.3 years	$ 0.63	2,003,500	$ 0.33

The Company issued 65,000 (2007 – 1,108,000) stock options with an estimated fair value of $33,761 (2007 - $547,080) ($0.52 per option (2007 - $0.49 per option)) using the Black-Scholes option pricing model with the following key assumptions:

	2008	2007
Weighted-average risk free interest rate *(%)*	**2.89**	4.14
Dividend yield *(%)*	**0.00**	0.00
Expected life *(years)*	**2.5**	2.5
Weighted-average volatility *(%)*	**72.0**	64.8

The Company's subsidiary CanAmericas issued an option to Foreign Corp. in 2006 to acquire an additional 1,000,000 common shares of CanAmericas at U.S. $0.25 per common share. The options vested 50 percent on each of January 13, 2007 and January 13, 2008 and expire on January 13, 2011.

FINANCIAL REPORTING UPDATE

During 2007, the Company completed the implementation of the new CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", Section 1530, "Comprehensive Income" and Section 3865, "Hedges" that deal with the recognition and measurement of financial instruments at fair value and comprehensive income. See Note 2 in the Notes to the audited Consolidated Financial Statements for further details.

Accounting Changes

During 2008, the Company adopted Section 1535 "Capital Disclosures", Section 3862, "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation". All the above Sections were required to be adopted for fiscal years beginning on or after October 1, 2007. As a result, the Company has added Note 11 providing the required disclosures regarding the Company's objectives, policies and processes for managing capital and the significance of financial instruments for the entity's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

Future Accounting Changes

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. This standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. The Company plans to adopt this standard prospectively effective January 1, 2009 and does not expect the adoption of this statement to have a material impact on the Company's results of operations or financial position.

In January 2009, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company plans to adopt these standards effective January 1, 2009 and does not expect the adoption will have a material impact on the results of operations or financial position.

International Financial Reporting Standards (IFRS)

The Accounting Standards Board (AcSB) has announced that Canadian GAAP, as we currently know them, will cease to exist for all Publicly Accountable Entities (PAE's) as of January 1, 2011. From that point onward the Company will be required to account for and report under IFRS.

Although the International Accounting Standards Board (IASB) intends to revise several standards between now and 2011, IFRS will be adopted in Canada utilizing a "big bang" approach, with the exception of some Canadian GAAP changes that have occurred or will occur in periods leading up to the transition date.

The IASB has undertaken a number of projects, many being joint projects with the Financial Accounting Standards Board in the U.S., that may significantly change existing international standards.

This degree of activity currently being undertaken by the standard setters makes the convergence from Canadian GAAP to IFRS a moving target. Due to these likely changes, careful monitoring of developments will be required in order to understand fully the accounting and business implications of the new requirements.

The Company in the fourth quarter of 2008 has commenced the process of conversion to IFRS by engaging its external auditors to perform a preliminary high-level scoping study to consider the potential impact of the implementation of IFRS on the Company. Based on the findings to date the following areas have been identified as high impact areas:

- IFRS 1 – First time adoption of IFRS
- IAS 16 – Property and equipment
- IAS 36 – Impairment of assets

Medium impact areas include:

- IFRS 6 – Exploration and evaluation of mineral resources
- IFRS 2 – Share-based payments
- IAS 1 – Presentation of financial statements
- IAS 10 – Events after the balance sheet date
- IAS 12 – Income Taxes
- IAS 18 – Revenues
- IAS 21 – The effects of changes in foreign exchange rates
- IAS 23 – Borrowing costs
- IAS 37 – Provisions, contingent liabilities and contingent assets

The impact of IFRS will be significant; however the Company has always maintained an accounting policy of successful efforts for property and equipment that will result in a major reduction in the level of conversion compared to most oil and gas companies who used the full cost accounting policy.

Over the course of 2009, the Company will be completing a more detailed analysis of the above areas and making decisions in respect of accounting policies that will be followed in respect of the above identified areas, documenting those policies, and calculating the impact of those policies on existing financial statement items and presentations.

The Company has recently implemented a new financial accounting system that provides for sufficient detail to comply with the IFRS requirements. As the Company has been using successful efforts since its inception, detail at a well level has been maintained under its past and current financial accounting systems as well as procedures are in place to capture this information at the operational level.

Implications to the Company's controls for DC&P and ICFR are being reviewed; however the Company believes that the majority of the procedures in place will apply once IFRS is implemented. Training will be required and is ongoing. Individuals within the Company have been and will continue to attend courses, seminars and other training activities to ensure the Company is adequately prepared for IFRS. Use of external legal expertise will be used to ensure compliance is maintained with all contractual agreements.

SENSITIVITY ANALYSIS

Given the current status of the Company, changes of U.S. $1.00 per barrel in the price of crude oil, $0.10 per MCF in the price of natural gas, or a $0.01 change in the Cdn/U.S. exchange rate would have no significant impact on the cash flow or cash flow per share amounts for the Company.

Additional information relating to the Company may be found on **www.sedar.com** and by visiting its website at **www.pinecliffenergy.com**.

Management's Responsibility for Financial Statements

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of the statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Deloitte & Touche LLP was appointed by the shareholders to serve as the Company's external auditors. They have examined the financial statements and provided their auditors' report. The audit committee has reviewed the financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented.

George F. Fink
President and CEO
March 23, 2009

Garth E. Schultz
Vice President, Finance and CFO
March 23, 2009

Auditors' Report

To the Shareholders of Pine Cliff Energy Ltd.:

We have audited the consolidated balance sheets of Pine Cliff Energy Ltd. as at December 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta
March 23, 2009

Consolidated Balance Sheets

As at December 31	2008	2007
ASSETS		
Current		
Cash	$ 2,624,556	$ 5,769,448
Restricted term investment *(Note 3)*	–	2,689,601
Accounts receivable	107,200	71,904
Prepaid expenditures	29,602	28,468
	2,761,358	8,559,421
Property and Equipment *(Note 7)*		
Property and equipment	3,878,550	4,638,837
Accumulated depletion and depreciation	(1,069,893)	(752,264)
	2,808,657	3,886,573
	$ 5,570,015	$12,445,994
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 444,376	$ 181,311
Asset Retirement Obligations *(Note 8)*	80,938	34,438
	525,314	215,749
Non-controlling Interests *(Note 5)*	–	25,179
Commitments *(Note 10)*		
Shareholders' Equity *(Note 9)*		
Share capital	14,588,722	14,588,722
Contributed surplus	722,968	341,465
Deficit	(10,266,989)	(2,725,121)
Accumulated other comprehensive income	–	–
	5,044,701	12,205,066
	$ 5,570,015	$ 12,445,994

Approved on Behalf of the Board:

George F. Fink
Director

F. William Woodward
Director

Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the years ended December 31	2008	2007
Revenue		
Oil and gas sales	$ 707,012	$ 582,950
Royalties	(191,275)	(137,012)
Interest income	128,935	76,273
	644,672	522,211
Expenses		
Production costs	115,868	134,453
General and administrative	1,338,621	1,294,929
Foreign exchange loss (gain)	(149,010)	27,827
Stock-based compensation	381,503	178,826
Dry hole exploration costs *(Note 7)*	6,171,140	–
Depletion, depreciation and accretion	330,465	296,724
	8,188,587	1,932,759
Loss Before Taxes and Non-controlling Interests	(7,543,915)	(1,410,548)
Taxes *(Note 6)*		
Current	23,132	–
Future	–	20,697
	23,132	20,697
Loss before Non-Controlling Interests	(7,567,047)	(1,431,245)
Loss applicable to non-controlling interests *(Note 5)*	25,179	49,791
Loss and Comprehensive Loss for the Year	(7,541,868)	(1,381,454)
Deficit, beginning of year	(2,725,121)	(1,343,667)
Deficit, end of year	$ (10,266,989)	$ (2,725,121)
Loss Per Share – Basic and Diluted *(Note 9)*	$ (0.17)	$ (0.04)

Consolidated Statements of Cash Flow

For the years ended December 31	2008	2007
Operating Activities		
Loss for the year	$ (7,541,868)	$ (1,381,454)
Items not affecting cash		
Stock-based compensation	381,503	178,826
Dry hole exploration costs	6,171,140	–
Depletion, depreciation and accretion	330,465	296,724
Unrealized foreign exchange loss (gain)	–	27,827
Future income taxes	–	20,697
Loss applicable to non-controlling interests	(25,179)	(49,791)
	(683,939)	(907,171)
Change in non-cash working capital		
Accounts receivable	(35,296)	113,097
Prepaid expenditures	(1,134)	(25,814)
Accounts payable and accrued liabilities	5,156	34,950
	41,586	122,233
Cash Used in Operating Activities	(725,525)	(784,938)
Financing Activities		
Issue of shares under employee stock option plan	–	74,750
Issue of shares pursuant to rights offering	–	9,143,919
Issue costs	–	(71,309)
Cash Provided by Financing Activities	–	9,147,360
Investing Activities		
Property and equipment expenditures	(5,377,190)	(2,797,763)
Restricted term investment	2,689,601	(2,689,601)
Change in non-cash working capital		
Accounts payable and accrued liabilities	268,222	7,197
Cash Used In Investing Activities	(2,419,367)	(5,480,167)
Unrealized foreign Exchange Gain (Loss) on Cash Held in Foreign Currency	–	(27,827)
Net Cash Inflow (Outflow)	(3,144,892)	2,854,428
Cash, Beginning of Year	5,769,448	2,915,020
Cash, End of Year	$ 2,624,556	$ 5,769,448
Cash Interest Paid	$ –	$ –
Cash Taxes Paid	$ 34,126	$ –

Notes to the Financial Statements

For the Years Ended December 31, 2008 and 2007

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles as described below.

Consolidation

These consolidated financial statements include the accounts of the Company and its 93 percent owned subsidiaries CanAmericas Energy Ltd. (CanAmericas) and CanAmericas (Argentina) Energy Ltd. (CanAmericas Argentina) (see note 5). Inter-company transactions and balances are eliminated upon consolidation.

Measurement Uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the balance sheets as well as the reported amounts of revenues, expenses, and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from estimated amounts.

Amounts recorded for depletion, depreciation and accretion costs and amounts used for ceiling test calculations are based on estimates of crude oil and natural gas reserves and future costs required to develop those reserves. Stock-based compensation is based upon expected volatility and option life estimates. Asset retirement obligations are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates. The provision for income taxes is based on judgements in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

Revenue Recognition

Revenues associated with sales of petroleum and natural gas are recorded when title passes to the customer.

Joint Interest Operations

Significant portions of the Company's oil and gas operations are conducted jointly with other parties and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

Petroleum and Natural Gas Properties and Related Equipment

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of exploratory wells are initially capitalized pending determination of proved reserves. Costs of wells which are assigned proved reserves remain capitalized, while costs of unsuccessful wells are charged to earnings. All other exploration costs including geological and geophysical costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Producing properties are assessed annually or more frequently as economic events dictate, for potential impairment. Impairment is assessed by comparing the estimated net undiscounted future cash flows to the carrying value of the asset. If required, the impairment recorded is the amount by which the carrying value of the asset exceeds its fair value.

Costs related to undeveloped properties are excluded from the depletion base until it is determined whether or not proved reserves exist or if impairment of such costs has occurred. These properties are assessed at least annually to determine whether impairment has occurred.

Depreciation and depletion of capitalized costs of oil and gas producing properties are calculated using the unit of production method. Development and exploration drilling and equipment costs are depleted over the remaining proved developed reserves. Depreciation of other plant and equipment is provided on the straight line method. Straight line depreciation is based on the estimated service lives of the related assets which is estimated to be ten years.

Furniture, Equipment and Other

These assets are recorded at cost and are depreciated on a straight line basis over five to ten years.

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, the Company records a future income tax asset or liability to reflect any difference between the accounting and tax bases of assets and liabilities, using substantively enacted income tax rates. The effect on future tax assets and liabilities of a change in tax rates is recognized in net earnings in the period in which the change occurs. Future income tax assets are only recognized to the extent it is more likely than not that sufficient future taxable income will be available to allow the future income tax asset to be realized.

Asset Retirement Obligations

The Company recognizes an Asset Retirement Obligation (ARO) in the period in which it is incurred when a reasonable estimate of the fair value can be made. On a periodic basis, management will review these estimates and changes, if any, will be applied prospectively. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the obligations are charged against the ARO to the extent of the liability recorded.

Stock-based Compensation

The Company accounts for stock-based compensation using the fair-value method of accounting for stock options granted to directors, officers, employees and other service providers using the Black-Scholes option pricing model. Stock-based compensation expense is recorded over the vesting period with a corresponding amount reflected in contributed surplus. Stock-based compensation expense is calculated as the estimated fair value of the options at the time of grant, amortized over their vesting period. When stock options are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur.

Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

Cash and restricted cash are classified as held-for-trading and are measured at fair value which equals the carrying value and any gains or losses are recognized in earnings in the period they occur. Accounts receivable are classified as loans and receivables which are measured at amortized costs. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Foreign Currency Translation

The Company translates foreign currency denominated monetary assets and liabilities of its integrated foreign subsidiaries at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at estimated transaction date exchange rates except depletion and depreciation expense, which is translated at the same historical exchange rates as the related assets. Exchange gains or losses are included in the determination of net income as foreign exchange gain or loss.

Basic and Diluted per Share Calculations

Basic earnings per share are computed by dividing earnings by the weighted average number of shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if options to purchase shares were exercised. The treasury stock method is used to determine the dilutive effect of common share options, whereby proceeds from the exercise of common share options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

2. NEW ACCOUNTING POLICIES

Capital Disclosures

Effective January 1, 2008, the Company prospectively adopted the Canadian Institute of Chartered Accountants (CICA) Section 1535, "Capital Disclosures" which establishes standards for disclosing information about the Company's capital and how it is managed. It requires disclosures of the Company's objectives, policies and processes for managing capital, the quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. The only effect of adopting this standard is disclosures about the Company's capital and how it is managed (see Note 11).

Financial Instruments Disclosures and Presentation

Effective January 1, 2008, the Company prospectively adopted Section 3862, "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation." These new accounting standards replaced Section 3861, "Financial Instruments – Disclosure and Presentation." Section 3862 requires additional information regarding the significance of financial instruments for the entity's financial position and performance, and the nature, extent and management of risks arising from financial instruments to which the entity is exposed. The additional disclosures required under these standards are included in Note 11.

Recent Accounting Pronouncements

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. The Company adopted these standards for its fiscal year beginning January 1, 2009 with no impact on its consolidated financial statements.

In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. The Company plans to adopt this standard prospectively effective January 1, 2009 and does not expect the adoption of this statement to have a material impact on the Company's results of operations or financial position.

In January 2009, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company plans to adopt these standards effective January 1, 2009 and does not expect the adoption will have a material impact on the results of operations or financial position.

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) will be effective January 1, 2011. The Company has performed an initial scoping process in order to ensure successful implementation within the required timeframe. The impact on the Company's consolidated financial statements is not reasonably determinable at this time. Key information will be disclosed as it becomes available during the transition period.

3. RESTRICTED TERM INVESTMENT AND BANKING AGREEMENT

The Company has a line of credit through its subsidiary CanAmericas to the lower of its available amount of cash or U.S. $3,690,000, which can be drawn by means of letters of guarantee and letters of credit. The line of credit may be cancelled without notice. No letters of guarantee or credit are currently outstanding.

The Company had a letter of guarantee (supported by a restricted term investment) to cover its commitment to spend U.S. $2,142,446 for drilling three wells on the Canadon Ramirez Concession. The guarantee expired January 31, 2008.

The Company had a performance security agreement whereby a guarantee to spend U.S. $1,120,000 on the Laguna de Piedra concession had been reassigned to Export Development Canada for a fee. The guarantee expired June 30, 2008.

4. RELATED PARTY TRANSACTIONS

Bonterra Oil & Gas Ltd. (Bonterra O&G), a corporation with common directors and management and the former parent of the Company, through its wholly owned subsidiary Bonterra Energy Corp. (Bonterra Corp) has provided management services to the Company. Fees paid for management services totalled $237,600 (2007 - $216,000) for the year. The management services agreement may be cancelled by the Company with 90 days notice.

As of December 31, 2008, the Company owed $592 (2007 - $3,976) to Bonterra Corp for operating expenditures paid on its behalf.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

5. NON-CONTROLLING INTERESTS

The Company incorporated subsidiary companies, CanAmericas, to explore and develop oil and gas properties primarily in South America. CanAmericas is owned 93 percent by the Company and seven percent by a foreign private Company (Foreign Corp.). CanAmericas was initially financed by investments of U.S. $1,400,000 for 5,600,000 common shares from the Company and U.S. $100,000 for 400,000 common shares from Foreign Corp.

Changes to non-controlling interest were as follows:

		2008	2007
Non-controlling interest, January 1	$	25,179	$74,970
Loss applicable to non-controlling interest		(25,179)	(49,791)
Non-controlling interest, December 31	$	–	$25,179

Foreign Corp. has been granted options to acquire an additional 1,000,000 common shares of CanAmericas at U.S. $0.25 per common share. The options vested 50 percent on each of January 13, 2007 and January 13, 2008 and expire on January 13, 2011.

6. INCOME TAXES

The Company has recorded a full valuation allowance for its future income tax assets as their recoverability is determined not to be more likely than not.

	2008 Amount	2007 Amount
Future income tax assets:		
Capital assets	$ 1,807,256	$ 182,907
Asset retirement obligation	20,235	8,610
Share issue costs	20,929	33,627
Loss carry-forward	898,328	421,880
Valuation allowance	(2,746,748)	(647,024)
	$ –	$ –

Income tax expense differs from the amounts that would be computed by applying Canadian federal and provincial income tax rates as follows:

	2008	2007
Loss before income taxes and non-controlling interests	$ (7,543,915)	$ (1,410,548)
Combined federal and provincial income tax rates	29.5%	32.1%
Income tax provision calculated using statutory tax rates	(2,225,455)	(452,786)
Increase (decrease) in income taxes resulting from:		
Stock-based compensation	112,543	57,403
Argentina capital tax	23,132	–
Loss applicable to non-controlling interests	7,428	15,983
Change in valuation allowance	2,099,724	264,453
Change in tax rates	18,135	126,875
Other	(12,375)	8,769
Income tax provision	$ 23,132	$ 20,697

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

	Rate of Utilization %	Amount
Undepreciated capital costs	25	$ 406,824
Foreign exploration expenditures	10	5,496,995
Canadian oil and gas property expenditures	10	589,981
Canadian development expenditures	30	586,943
Canadian exploration expenditures	100	392,110
Share issue costs	20	83,715
Non-capital loss carryforward (1)	100	3,593,315
		$ 11,149,883

(1) $707,698 expires 2026, $929,726 expires 2027, $1,955,891 expires 2028.

7. PROPERTY AND EQUIPMENT

	2008		2007	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Petroleum and natural gas properties and related equipment	$ 3,825,037	$ 1,041,902	$ 4,585,325	$ 734,384
Furniture, equipment and other	53,513	27,991	53,512	17,880
	$ 3,878,550	$ 1,069,893	$ 4,638,837	$ 752,264

As of December 31, 2008, the Company spent $7,503,452 (2007 - $2,575,676) for exploration activities for the Canadon Ramirez Concession and Laguna de Piedra Concession as discussed in Note 10. In 2008, the exploration costs related to the Canadon Ramirez Concession of $6,171,140 (which included $34,130 of asset retirement obligations) were written-off to dry hole costs as the three well program was unsuccessful. Exploration costs of $1,366,442 included in petroleum and natural gas properties and related equipment presently have been excluded from costs subject to depletion and depreciation.

8. ASSET RETIREMENT OBLIGATIONS

At December 31, 2008, the estimated total undiscounted amount required to settle the asset retirement obligations was $123,602 (December 31, 2007 - $69,182). Costs for asset retirement have been calculated assuming a two percent inflation rate for 2009 and thereafter. These obligations will be settled based on the useful lives of the underlying assets, which extend up to 13 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of five percent.

Changes to asset retirement obligations were as follows:

	2008	2007
Asset retirement obligations, January 1	$ 34,438	$ 40,240
Adjustment to asset retirement obligation	44,778	(7,814)
Liabilities settled during the year	–	–
Accretion	1,722	2,012
Asset retirement obligations, December 31	$ 80,938	$ 34,438

9. SHARE CAPITAL

Authorized

Unlimited number of Common Shares without nominal or par value.

Unlimited number of Class B Preferred Shares without nominal or par value which may be issued in one or more series.

	2008		2007	
Issued	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of year	45,275,695	$ 14,588,722	36,523,041	$ 5,377,343
Issued pursuant to rights offering	–	–	8,312,654	9,143,919
Share issue costs		–		(71,309)
Issued on exercise of stock options	–	–	440,000	74,750
Transfer of contributed surplus to share capital		–		43,322
Future tax benefit of share issue costs		–		20,697
Balance, end of year	45,275,695	$ 14,588,722	45,275,695	$ 14,588,722

The number of common shares used to calculate diluted loss per share for the year ended December 31, 2008 is 45,275,695 (2007 – 38,291,597). The exercise of outstanding stock options would have no dilutive effect on per share amounts.

On October 25, 2007, the Company completed a rights offering whereby the Company shareholders were granted the right to purchase one common share for every four common shares held with an exercise price of $1.10 per share. The Company issued 8,312,654 common shares for proceeds of $9,072,610 net of $71,309 of share issue costs.

A summary of the changes of the Company's contributed surplus is presented below:

Contributed surplus

($)	2008	2007
Balance, beginning of year	**341,465**	205,961
Stock-based compensation expensed (non-cash)	**381,503**	178,826
Stock-based options exercised (non-cash)	–	(43,322)
Balance, end of year	**722,968**	341,465

The deficit balance is composed of accumulated losses.

The Company may grant options for up to 4,527,569 (2007 – 3,605,583) common shares. The exercise price of each option granted equals the market price of the common share on the date of grant and the options' maximum term is five years.

A summary of the status of the Company's stock option plan as of December 31, 2008 and December 31, 2007, and changes during the years ended on those dates are presented below:

	December 31, 2008		December 31, 2007	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	**3,053,000**	**$ 0.62**	2,420,000	$ 0.29
Options granted	**65,000**	**1.15**	1,108,000	1.16
Options exercised	–	–	(440,000)	0.17
Options cancelled	–	–	(35,000)	0.40
Outstanding at end of year	**3,118,000**	**$ 0.63**	3,053,000	$ 0.62
Options exercisable at end of year	**2,003,500**	**$ 0.33**	1,162,500	$ 0.18

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 12/31/08	Weighted-Average Remaining Contractual Life	Weighted-Average Exercisable Price	Number Exercisable At 12/31/08	Weighted-Average Exercise Price
$ 0.15	1,090,000	1.1 years	$ 0.15	1,090,000	$ 0.15
0.50 – 0.60	825,000	1.1 years	0.51	800,000	0.51
0.70 – 0.75	80,000	1.1 years	0.72	80,000	0.72
1.10 – 1.20	1,083,000	1.5 years	1.17	13,500	1.17
1.40 – 1.50	40,000	2.1 years	1.49	20,000	1.49
$ 0.15 – 1.50	3,118,000	1.3 years	$ 0.63	2,003,500	$ 0.33

The Company records compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. Unvested options as of December 31, 2008 vest 1,057,000 in 2009 and 57,500 in 2010.

The Company issued 65,000 in 2008 (2007 – 1,108,000) stock options with an estimated fair value of $33,761 (2007 - $547,080) ($0.52 per option (2007 - $0.49 per option)) using the Black-Scholes option pricing model with the following key assumptions:

	2008	2007
Weighted-average risk free interest rate *(%)*	**2.89**	4.14
Dividend yield *(%)*	–	–
Expected life *(years)*	**2.5**	2.5
Weighted-average volatility *(%)*	**72.0**	64.8

10. COMMITMENTS

The Company had two farm-in agreements in South America which require future expenditure commitments as outlined below:

Canadon Ramirez Concession

Pine Cliff, through its subsidiaries, has paid 100 percent of costs totaling U.S. $5,500,000, including a 21 percent Value Added Tax (V.A.T.), for work to be conducted on the concession to earn a 49 percent participating interest, which included a three well drilling program. As of December 31, 2008, all costs relating to this concession, including V.A.T. of $1,052,944 (U.S. $967,961), have been expensed to dry hole costs as described in Note 7. There are no further material farm-in commitments on this property, but the Company may decide to do additional exploratory programs in the future.

Laguna de Piedra Concession

Pine Cliff, through its subsidiaries, has paid 40 percent of costs totaling U.S. $1,120,000 including V.A.T. to earn a 25 percent participating interest in the entire permit. The Company has plans to participate in a one well project which is expected to be drilled in 2009.

The V.A.T amount is recoverable against V.A.T liabilities generated on the sale of petroleum production in Argentina. The V.A.T amount has been capitalized to exploration costs, as its recoverability can not be determined until a successful producing property is established.

The success of the South American operations and recoverability of the capitalized costs related thereto are dependent upon the development of successful producing properties. This may require additional financing to continue the on-going development of the South American operations and to meet the related obligations as they become due.

11. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial Risk Factors

The Company undertakes transactions in a range of financial instruments including:

- Cash deposits;
- Receivables;
- Payables;

The Company's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk, foreign exchange risk, credit risk, and liquidity risk). Financial risk management is carried out by senior management under the direction of the Board of Directors.

The Company does not enter into risk management contracts. The Company sells its oil and gas commodities at market prices at the date of sale in accordance with the Board directive.

Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to continue providing returns to its Shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue debt or new shares.

The Company monitors capital on the basis of the ratio of budgeted exploration capital requirements to current working capital. This ratio is calculated using the projected cash requirements for a year in advance and maintaining a working capital balance of at least six months to satisfy this requirement on a continuous basis.

The Company believes that maintaining approximately a six month current working capital balance to the exploration capital budget requirement is an appropriate basis to allow it to continue its future development of the Company's assets.

The following section (a) of this note provides a summary of the Company's underlying economic positions as represented by the carrying values, fair values and contractual face values of our financial assets and financial liabilities. The Company's working capital to capital expenditure requirement ratio is also provided.

The following section (b) addresses in more detail the key financial risk factors that arise from the Company's activities including its policies for managing these risks.

a) Financial assets, financial liabilities

The carrying amounts, fair value and face values of the Company's financial assets and liabilities other than cash are shown in Table 1.

Table 1

	As at December 31, 2008		
($000)	Carrying Value	Fair Value	Face Value
Financial assets			
Accounts receivable	107	107	142
Financial liabilities			
Accounts payable and accrued liabilities	444	444	444

The budgeted capital expenditure to working capital base figures for December 31, 2008 is presented below:

($000)	December 31, 2008
Budgeted capital expenditure [(1)]	750
Current assets	2,761
Current liabilities	(444)
Working capital	2,317
Working capital to budgeted capital expenditure *(in months)*	37.1

(1) Budgeted capital expenditure represents the Company's estimated future twelve month capital expenditures.

b) Risks and mitigations

Market risk is the risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which Pine Cliff is exposed are discussed below.

Commodity price risk

The Company's principal operation is the exploration and possible development of its oil and gas properties in Argentina. The Company also engages in the exploration and development of oil and natural gas properties in Canada. Fluctuations in prices of these commodities may directly impact the Company's performance and ability to continue with its operations.

The Company's management currently does not use risk management contracts to set price parameters for its production.

Sensitivity Analysis

The Company is still in the exploration stage of development of its exploration properties and as such generates nominal cash flow or earnings from these properties. In addition, the Company's petroleum and natural gas operations provide only moderate cash flow and as such changes in commodity would have no material impact on the Company.

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that Pine Cliff uses. The principal exposure to the Company is on its cash balances which have a variable interest rate which gives rise to a cash flow interest rate risk.

Pine Cliff's cash consists of Canadian dollar, U.S. dollar and Argentinean Pesos investment chequing accounts. Since these funds need to be accessible for the development of the Company's capital projects, management does not reduce its exposure to interest rate risk through entering into term contracts of various lengths. As discussed above, the Company generally manages its capital such that its budgeted capital requirements to current working capital ratio are at least six months.

Foreign exchange risk

The Company has foreign operations, but no revenue from production from the foreign properties and currently sells all of its Canadian product sales in Canadian currency. The Company has a U.S. cash and Argentina Pesos cash balance and earns an insignificant amount of interest on its U.S. and Argentinean Pesos bank accounts. Funds held in foreign denominated accounts are generally held for short periods of time, as the Company transfers and converts Canadian funds to foreign currency as payments for foreign currency denominated payables come due. As such, Pine Cliff does not mitigate exchange rate risk by using risk management contracts.

Credit risk

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and cause the Company to incur a financial loss. Pine Cliff is exposed to credit risk on all financial assets included on the balance sheet. To help mitigate this risk, the Company maintains the majority of its cash balances with a major Canadian chartered bank and invests in secure financial instruments.

Substantially all of the accounts receivable balance at December 31, 2008 ($107,000) and December 31, 2007 ($72,000) relates to product sales with Canadian oil and gas companies and interest income from major Canadian chartered banks, all of which have consistently been received within 30 to 60 days. The Company, through its subsidiary CanAmericas, has also a receivable of $35,000 for Argentina V.A.T. on non-capital expenditures. The Company has taken a full allowance on the V.A.T., as the Company has no Argentina income subject to V.A.T. against which to claim the receivable.

The Company assesses quarterly if there has been any impairment of the financial assets of the Company. The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying value of accounts receivable approximates their fair value due to the relatively short periods to maturity on this instrument. Currently no accounts receivable is greater than 90 days. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due.

Liquidity risk

Liquidity risk includes the risk that, as a result of Pine Cliff's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date,
- Pine Cliff will not have sufficient funds to continue with its financing of its major exploration projects,
- The Company will be forced to sell assets at a value which is less than what they are worth, or
- Pine Cliff may be unable to settle or recover a financial asset at all.

To help reduce these liquidity risks, the Company:

- Has a general capital policy of maintaining at least six months of budgeted capital requirements as its working capital base.
- Maintains a continuous evaluation approach as to the requirements for its largest exploration programs; the Canadon Ramirez Concession and Laguna de Piedra Concession.

12. SEGMENTED INFORMATION

The Company has operations in Canada and in South America. All operating activities are related to exploration, development and production of petroleum and natural gas:

($)	Canada	South America	Total
Year Ended December 31, 2008			
Revenue, gross	**814,901**	**21,046**	**835,947**
Loss before non-controlling interest	**621,501**	**6,945,546**	**7,567,047**
Capital expenditures	**607,941**	**4,769,249**	**5,377,190**
Property and equipment	**1,416,693**	**1,391,964**	**2,808,657**
Total assets	**3,884,908**	**1,685,107**	**5,570,015**
Year Ended December 31, 2007			
Revenue, gross	631,963	27,260	659,223
Loss before non-controlling interest	560,826	870,419	1,431,245
Capital expenditures	50,234	2,747,529	2,797,763
Property and equipment	1,111,830	2,774,743	3,886,573
Total assets	6,428,371	6,017,623	12,445,994

CORPORATE INFORMATION

BOARD OF DIRECTORS

G.J. Drummond, Nassau, Bahamas
G.F. Fink, Calgary, Alberta
C.R. Jonsson, Vancouver, British Columbia
F. W. Woodward, Calgary, Alberta

OFFICERS

G.F. Fink – President & Chief Executive Officer
R.M. Jarock – Chief Operating Officer
G.E. Schultz – Vice President, Finance,
Chief Financial Officer & Secretary

REGISTRAR & TRANSFER AGENT

Olympia Trust Company, Calgary, Alberta

AUDITORS

Deloitte & Touche LLP, Calgary, Alberta

SOLICITORS

Borden Ladner Gervais LLP, Calgary, Alberta

BANKERS

The Royal Bank of Canada, Calgary, Alberta

STOCK LISTING

The TSX Venture Exchange, Toronto, Ontario
Trading symbol: **PNE**

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